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ABSTRACT

This individualized, competency-based unit on complying with government regulations, the 10th of 18 modules, is on the third level of the revised Program for Acquiring Competence in Entrepreneurship (PACE). Intended for the advanced secondary and postsecondary levels and for adults wanting training or retraining, this unit, together with the other materials at this level, emphasizes the actual application of a business plan. Three competencies are dealt with in this instructional unit, including (1) appraising the effects of various regulations on one's business operations, (2) acquiring the information necessary to comply with the various rules and regulations affecting one's business, and (3) developing policies for one's business to comply with government rules and regulations. Materials provided include objectives, preparation information, an overview, content (with questions in margins that guide the students' reading), activities, assessment forms, and notes and sources. The unit requires using approximately three hours of class time. (YLB)

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PACE
REVISED
Program for Acquiring Competence in Entrepreneurship

UNIT 10

☐ Level 1
☐ Level 2
☑ Level 3

Complying with Government Regulations

Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Appraise the effects of various regulations on your business operations.**
- **Acquire the information necessary to comply with the various rules and regulations affecting your business.**
- **Develop policies for your business to comply with government rules and regulations.**

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Research & Development Series No. 240 CB 10

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Levels 1 and 2:

   Level 1 -

   - Summarize the importance of government rules and regulations to the individual entrepreneur
   - Classify legislation according to whom it is designed to protect
   - Explain at least three types of federal, state, and local taxes affecting small business

   Level 2 -

   - Identify areas of government regulation that should be considered in a business plan
   - Compile a list of appropriate governmental agencies concerned with regulations, licenses, and permits

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

   cease and desist order
   competition

COMPLYING WITH GOVERNMENT REGULATIONS

WHAT IS THIS UNIT ABOUT?

Numerous government regulations affect the operations of small businesses. These regulations may require the owner to obtain a certain type of business license, install special pollution control equipment, disclose the "true rate of interest" to credit customers, or pay various taxes.

Government regulations are passed at the federal state, and local levels. The number of rules and regulations affecting small businesses seems to be increasing and becoming more complex. The owner of a small business who seeks aid from lawyers, accountants, governmental agencies, and other sources is wise.

The focus of this PACE unit is on the analysis and evaluation of business operations for the purpose of planning strategies and policies to comply with government regulations. Throughout the unit a number of step-by-step procedures for complying with certain regulations will be presented for your examination. Topics discussed in this unit include the importance of government regulations, classification of regulations, and types of taxes encountered by small business owners.

WHY ARE GOVERNMENT RULES AND REGULATIONS IMPORTANT?

Most business controls were originally designed to protect our economic system and its people. As the business world grew, so did the laws. In our society today, rules and regulations are undergoing continuous revision. Economic growth and complexity have encouraged the establishment of new laws. These laws function to ensure a healthy society and hence a healthy business environment.

It sometimes seems that you have to be a lawyer to interpret all of the rules and regulations. You do not really need to be a lawyer; however, you cannot plead ignorance, because ignorance is not an acceptable excuse in the eyes of the law. If you are unable to understand rules and regulations, you should secure legal or governmental help.

Today's small business owner often feels overwhelmed by these protective laws. However, some basic understanding of their purposes is important. Your enterprise will be in a better position to follow appropriate laws if you plan to learn about rules, regulations, and taxes. Awareness of the regulations you must follow will help you to establish better ways to meet your individual responsibility as an entrepreneur. It will be your responsibility to be sure your firm complies with the appropriate federal, state, and local regulations.

Purpose of Regulations. Even though government laws may increase the work of small business owners, they are passed to promote and protect a healthy society. You may often think that the time you spend filling out forms and staying up to date on laws that apply to your firm could be better used in operating your business. However, every business depends on a healthy society for its success. Attempts by the government to protect the interests of all citizens also work for you.

Regardless of the type of business you own, your business must conform to laws and legal regulations. It is important to remember that these rules and regulations were created for a variety of reasons, including the following:

- To protect citizens from business practices believed to be harmful
- To protect employees' interests
- To protect general public health and safety
- To protect the right to organize
- To protect businesses against competitors who use unfair prices and practices
- To protect consumers from the sale of harmful goods, from false advertising and selling, and from businesses that work together to keep prices high.

Source of Regulations. Regulations concerning the operation of small businesses are made on the federal, state, and local levels. Federal regulations apply to businesses that operate in interstate (across state lines) commerce. State and local rules apply only to businesses within the particular state or locality.

Federal legislation is passed by the U.S. Congress. Agencies are established to enforce the regulations. Approximately ninety federal regulatory agencies exist. Some of the more important agencies are—

- the Federal Trade Commission,
- the Equal Employment Opportunity Commission,
- the Occupational Safety and Health Administration,
- the Environmental Protection Agency.

The Federal Trade Commission (FTC) was established by an act of Congress in 1915. Its purpose was to control unfair and deceptive business practices. The agency's powers were expanded to include enforcement of provisions written into the Clayton Act. The FTC enforces it regulations through cease-and-desist orders and other means.

The Equal Employment Opportunity Commission (EEOC) was established by passage of the 1964 Civil Rights Act. This Commission is concerned with preventing discrimination on the basis of race, color, religion, sex, or national origin. Since the establishment of the Commission, its powers have increased to protect older persons, veterans, and handicapped individuals. This agency receives charges of discrimination, conducts investigations, and can bring suit against businesses.

The Occupational Safety and Health Administration (OSHA) was created by legislation enacted in 1970. The safety and health of

employees while on the job is its major concern. OSHA was given the power to establish standards of worker health and safety. The agency can conduct investigations on business premises and enforce its regulations by writing citations and enforcing penalties.

The Environmental Protection Agency (EPA) was formed in 1970 by combining several divisions of various government departments and agencies. The EPA is concerned with clean air, water, and the environmental effects of toxic substances, solid wastes, and pesticides. The agency is responsible for establishing and enforcing standards provided in legislation enacted by Congress.

Impact on Small Business. Government regulations are written to achieve desirable economic and social goals. Preserving fair competition and protecting minorities and disadvantaged persons are usually agreed to be worthy goals of government regulation. Our society as a whole (and small business in particular) receives benefits from government legislation. The Small Business Administration, for example, is a government agency that provides many valuable services to entrepreneurs.

Government regulations also create problems for small businesses. They create a burden of extra paperwork and costs. Many owners of new small businesses are surprised at the large number of government reports and forms they are required to complete. Various estimates of the cost of government regulations to businesses have been made, and they all amount to billions of dollars a year. The Commission of Federal Paperwork, for example, reported that 5 million small businesses spend from $15 to $20 billion a year, or an average of over $3,000 each, on federal paperwork.

Small businesses may be carrying more than their share of the regulatory burden. Most of the specialized forms required by regulatory agencies are designed for completion by large corporations. Large businesses have staff and equipment to handle the task. These specialized operations are lacking in most small businesses.

Government regulations also affect the plans and daily operation of a small business. The government influences such basic management decisions as the following:

- What lines of business will be started?
- What products can be produced?
- Which investments can be financed?
- Under what conditions can products be produced?
- Where can products be made?
- How can products be marketed?
- What prices can be charged?
- What profits can be kept?

Federal, state, and local laws influence or control certain business practices. Whatever your business, government officials and other professionals such as lawyers, accountants, and bankers should be

contacted to determine the specific impact the many regulations will have on your business operation.

Government regulations have been established for the protection of (1) competition, (2) employees, (3) consumers, and (4) the environment. The federal government regulates interstate commerce (among states). State government regulates intrastate commerce (within a state's boundaries). Local governments are concerned with business operations within county or municipal boundaries.

HOW CAN FEDERAL REGULATIONS BE CLASSIFIED?

Protection of Competition. In the American business system, competition is the cornerstone of our free enterprise economy. The purpose of antitrust laws—literally, laws directed against giant business monopolies—is to preserve the conditions necessary for competition and thus to protect our economic system.

Businesses in the United States are under the protection of and are subject to the restraints of the federal antitrust laws. Passed under the "interstate commerce" power of Congress, these laws affect almost every business. Hardly any retail, service, or manufacturing business is so small or local that federal antitrust laws do not apply. For example, antitrust laws have been applied against motion picture exhibitors, bowling alley proprietors, and garbage collectors.

These laws are particularly important to owners of small businesses, who are often protected by antitrust legislation. It is in the self-interest of any business person to be familiar with and follow antitrust laws.

There are four principal antitrust laws in addition to a number of related federal statutes. The meaning of these laws has been clarified by many court decisions over the years.

The chief antitrust statute, the Sherman Act of 1890, prohibits conspiracies and understandings that unreasonably restrain trade. Some kind of joint action between two or more persons or companies must exist for Section 1 of the Sherman Act to apply. This section states that every contract, business organization, or conspiracy designed to restrict trade or commerce is illegal. Section 2 of the Act is directed at any person or persons who monopolize or attempt to monopolize any product line or geographical area of commerce.

A second law, the Clayton Act, was designed to strengthen the Sherman Act. The Clayton Act specifically prohibits four types of business acts if these acts tend to lessen competition or create a monopoly. First, price discrimination—charging different prices to different buyers— is illegal unless the different prices are made to meet competition. Second, exclusive and tying contracts are illegal. Exclusive contracts require a customer to agree not to sell the products of the suppliers' competitors. Tying contracts occur when a customer must sign two contracts for two different products to obtain one of the products. A third illegal practice is intercorporate stockholding. A corporation cannot own the stock of another corporation if it results in reduced competition. The fourth practice

prohibited by the Clayton Act is interlocking directorates. A person cannot serve on the board of directors of two or more competing companies if this would reduce competition.

The Robinson-Patman Act was passed to strengthen the Clayton Act regarding price discrimination. The aim of the Robinson-Patman Act was to equalize prices to all customers if the costs of providing the goods are similar. More specifically, the Act prohibits (1) price discounts unless there are differences in costs, (2) selling private and regular brands of an identical product at different prices, and (3) giving unequal advertising or sales promotion allowances to different buyers. An important aspect of this Act is that the burden of proof rests with the seller of the product.

The Federal Trade Commission Act of 1914 created the Federal Trade Commission (FTC). The FTC is an administrative body of experts delegated to determine and prohibit "unfair methods of competition." The Commission is empowered to deem as unfair anything that violates the spirit, not just the letter, of the federal antitrust laws. For example, the Robinson-Patman Act makes a buyer liable for price discrimination but not for discriminatory advertising allowances.

The FTC has successfully established the latter practice as unlawful under the FTC Act. The Commission's duties also include prohibiting false and misleading material in advertising, warranties, and promotional activities. In short, the Commission's responsibilities include attacking most types of unethical business conduct. Under the FTC Act, the Commission's enforcement is limited to a cease and desist order.

WHAT STEPS CAN BE TAKEN TO COMPLY WITH LAWS PROTECTING COMPETITION?

As the owner of a small business, you should consider developing an antitrust compliance program. If you decide to do so, you should probably enlist the help of a lawyer. Legal counsel must be well-briefed concerning this particular part of the company's business. An antitrust compliance program should include the following components:

1. **The development of a company policy concerning antitrust practices.** Such statements should give the reasons for complying with antitrust laws and the obvious types of violations of antitrust laws to be avoided. The policy statement should receive wide circulation within the company.

2. **The establishment of a training program for company personnel.** Employees can only be expected to follow policies they understand.

3. **The establishment of internal company procedures to implement company antitrust policy.** Company procedures concerning pricing, termination of dealers, marketing of new products, trade association activities, or refusals to deal should all be considered when developing the policies.

4. **The use of a documentation system.** Documents that supply information showing that antitrust was considered in forming policies and in decision-making procedures of the company should be developed. For example, as the company develops its new pricing policies, documents indicating that the rules of antitrust were considered in the forming of the pricing policy should be prepared. Every effort to stay within the boundaries of antitrust should be noted. The documents should be kept for possible future defense against charges of antitrust violations, and could supply valuable evidence to convince a jury or court of the company's desire to comply with antitrust laws. Such evidence is important in establishing that no unethical intent existed in the minds of company officials.

5. **The periodic performance of management audits.** Existing company antitrust policies, educational programs, decision-making procedures, and documentation systems should be reviewed at least yearly. The changing aspects of the law and of company operations make these audits necessary. The annual audit should determine whether the compliance program is effective and whether any changes are necessary.

Within the antitrust compliance program outlined, the small business owner will need to develop guidelines and standards regarding compliance with the specific provisions of the various laws. For example, the Robinson-Patman Act is concerned with price discrimination. Personnel conducting an audit of the firm's antitrust practices might be given guidelines such as the following:

1. To determine whether a Robinson-Patman violation has occurred, auditors should ask if the company has made sales—

   - at different prices;
   - within a reasonable contemporary time period (this may vary depending upon the competitive market; six months is a good rule of thumb);
   - in interstate commerce (however, price discrimination occurring totally intrastate may violate state laws);
   - of products of like grade and quality (no significant difference from a commercial standpoint);
   - to customers where injury to competition at the seller, buyer, or sub-buyer level will probably result.

2. If any of these criteria are present, the price difference may, nevertheless, be defended under the law if—

   - the price was given to meet (not beat) competition,

- the prices charged may be justified on a cost basis,
- the market or the marketability of the goods has changed.

Protection of Employees. Many government regulations exist for the purpose of protecting employees. State and local governments have enacted their own laws, but the major employee protection laws have been passed by the federal government. This legislation provides safety, fair wages, and equality for all employees.

A major concern of government regulations is the health and safety of employees on the job. The Occupational Safety and Health Act (OSHA) is one of the most important pieces of legislation protecting employees. This act was written to make all employers responsible for providing a safe and healthful work place. One out of every eight workers has a work-related illness or accident each year. OSHA was passed with the intent of minimizing such problems.

Practically every worker other than domestic household workers and miners are covered under this law. Domestic and household workers are protected under other legislation. Many states have adapted the provisions of OSHA and have even developed legislation of their own to protect employees.

OSHA maintains the health and safety of the work place by establishing standards and conducting inspections of business premises. It is the entrepreneur's responsibility to know the standards and to ensure that the facilities and employees comply with the standards. OSHA standards can be obtained from the regional offices. The Federal Register publishes changes in standards, and can be purchased from the U.S. Government Printing Office.

Many small owners of businesses have voiced concern about OSHA. These owners, some of whom consider the law a necessity, note that their heavy workloads leave little time to comply with the many regulations. What can an entrepreneur do to ease the burden? Some steps follow that you can take to meet OSHA requirements and yet not have an overwhelming task.

First, you must be sure that your employees are familiar with OSHA and your safety regulations. Second, if you have more than ten employees, you must keep a record of work-related injuries and illnesses. Third, you should become acquainted with OSHA standards and the procedures to be used in performing a work place inspection.

A second major employee protection concern is the economic status of employees. The Fair Labor Standards Act is intended to protect workers by providing minimum wages, maximum hours, overtime pay, equal pay, recordkeeping, and child labor limitations. The Act requires equal pay for equal work for all employees covered by minimum wage laws. The law does not prohibit paying different wages if the difference is based on seniority, quantity of work, or quality of work. If the jobs require the same skills, efforts, and responsibilities, then an employer cannot pay one employee different wages than another.

In addition to the Fair Labor Standards Act, the Walsh-Healy Act, the Davis-Bacon Act, and other related acts establish wages, hours, and working conditions that apply to firms with government contracts.

The above acts may cover your employees, depending on your situation. Specific information can be obtained from your nearest office of the Wage and Hour and Public Contracts Division, U.S. Department of Labor.

The Social Security Administration (SSA) in the Department of Health and Human Services (HHS) administers the Federal Social Security Act of 1935. The Act provides monthly benefits to insured persons and their dependents in the event of retirement, disability, or death. It also provides health insurance (Medicare) to persons sixty-five and over, and to some disabled persons under sixty-five. There are thirteen hundred Social Security offices in the United States. If there is no office in your community, consult your local post office for the visiting schedule of Social Security representatives to your area.

In addition to the Federal Social Security Act, other regulations deal with economic security for employees. Legislation for economic security is designed to (1) minimize losses an employee might sustain from industrial accidents, occupational diseases, and involuntary unemployment; (2) provide hospital and medical care for the employee; and (3) furnish some income to the employee after retirement.

The Federal Social Security Act encouraged all states to enact economic security laws, and they have done so. Protection from income loss due to industrial accidents and occupational diseases is provided through Worker's Compensation laws. Worker's Compensation provides benefits for injured workers or their dependents, regardless of who is at fault. If a worker is killed or injured on the job, the worker or dependents collect. Payment is made according to a schedule based on the severity of the injury. The worker does not receive benefits if the injury results from a fight he or she started, if the injury was self-inflicted, or if the worker was under the influence of alcohol or drugs.

The employer pays the total cost of Worker's Compensation coverage, which is available through state or private insurance companies. Requirements vary from state to state. Worker's Compensation plans are usually administered by a state department of labor or a special board or commission.

An additional law in this area of employee protection is the Pension Reform Act. This law is designed to protect employee investments in company pension and profit-sharing plans. You should check with your state labor office to be sure of the exact rules and regulations that apply to your business in the area of economic security for employees.

Fair employment practices is another broad area of concern regarding the protection of employees. Fair employment practices are

established by the Federal Civil Rights Act. The Act makes it unlawful to discriminate on the basis of race, religion, age, or sex as a condition of employment. Also, many states have enacted fair employment practice laws. In hiring employees, an entrepreneur will be concerned with maintaining the standards established by such laws. An employer can get into trouble by asking preemployment interview questions about race, religion, age, and marital status.

Union and management practices are governed by several national laws. The National Labor Relations Act, the Taft-Hartley Act, and the Labor Management Reporting and Disclosure Act are three major federal laws dealing with the possible formation and the operation of unions. This legislation guarantees the right of employees working for businesses engaged in interstate commerce to organize and bargain collectively with their employers. These laws also protect the right of employees to refrain from such activities. States also have enacted laws designed to uphold collective bargaining and to define unfair labor practices.

Additional laws concerned with fair employment practices include the Equal Pay Act, the Age Discrimination in Employment Act, and the Equal Employment Opportunity Act. Small Business owners would be wise to familiarize themselves with these laws.

WHAT STEPS CAN BE TAKEN TO COMPLY WITH LAWS PROTECTING EMPLOYEES?

Of all the regulations designed to protect employees, those regulations concerned with fair employment practices create the most problems for small business owners. An affirmative action program developed early in the life of a business will eliminate many potential problems.

A set of basic steps follows that the owner of a small business can take to develop an affirmative action program:

1. Develop a written equal employment policy and affirmative action commitment.
2. Designate an individual to direct the affirmative action program.
3. Publish your equal employment policy and affirmative action commitment and distribute it within your company and to potential sources of recruitment.
4. Review your employment system to identify potential or actual unfair employment practices.
5. Develop programs to enhance equal employment and affirmative action goals.

In addition to the general program outlined, specific procedures for complying with the laws should be developed. Small businesses will have problems with governmental agencies if the businesses act in ways that indicate a discriminatory attitude toward job applicants. Specific company procedures should be developed to ensure that applicants are not asked discriminatory questions, such as these:

- Are you married?
- Where does your spouse work?
- Do you have a disability?
- Have you ever been arrested?

Human resource legislation varies from state to state. State employee relations or human resource departments are responsible for enforcing labor and industrial safety laws. These agencies are also responsible for enforcing state minimum wage requirements. Look in the local telephone directory to locate the state agency that can provide the services and information you need.

Protection of Consumers. Federal laws that are aimed at protecting consumers include the following:

- The Pure Food and Drug Act
- The Federal Equal Credit Opportunity Act
- The Fair Credit Billing Act
- The Fair Credit Reporting Act
- The Consumer Credit Protection Act
- The Federal Food, Drug, and Cosmetic Act
- The Fair Packaging and Labeling Act
- The Textile Fiber Products Identification Act

A major consumer complaint has been the difficulty of understanding various terms surrounding the borrowing of money. Legislation has provided credit protection to customers. The Consumer Credit Protection Act is commonly called the "Truth-in-Lending" Act. If you extend credit to your customers, you will be affected by this law. This law is intended to assure a clear explanation of credit terms. It requires that lenders explain credit terms so that the consumer will know exactly what the credit will cost. This will help the consumer to compare various credit offers. The law also provides that lenders tell the truth when loaning money or extending credit. They must disclose their credit terms and interest costs in prescribed standard vocabulary.

An amendment to the Consumer Credit Protection Act limits the liability the consumer has for lost or stolen credit cards. The limit is fifty dollars on cards issued on or before January 25, 1971. There is no liability on cards issued after that time, unless the credit card issuer takes several steps, such as (1) notifying the card holder of limited liability; (2) providing a postage-free means of notification of loss; and (3) providing a means of identification, such as signature, thumb print, or photograph of the consumer.

A second law, the Equal Credit Opportunity Act, is designed to ensure that consumers are not denied credit for reasons of sex, marital status, age, race, religion, or national origin. Another law, the Fair Credit Billing Act, was passed to provide consumers with an opportunity to dispute errors in billing statements. It also requires creditors to make an effort to correct such errors.

Additionally, the Fair Credit Reporting Act is designed to ensure that a consumer's credit report will contain only accurate, relevant,

and recent information. The information must be kept confidential unless requested for an appropriate reason by the proper party.

Consumer credit problems have just recently been addressed by government legislation. A concern that has had government attention for many years is the mislabeling and sale of hazardous products.

The Food and Drug Administration (FDA) is a federal agency within the Department of Health and Human Services. The FDA protects consumers by enforcing laws and regulations to prevent distribution of adulterated or misbranded foods, drugs, medical devices, cosmetics, and veterinary products.

The Pure Food and Drug Act forbids "adulteration and misbranding" of foods and drugs sold in interstate commerce. The Federal Food, Drug, and Cosmetic Act added cosmetic and therapeutic devices to the FDA's jurisdiction. The legislation also revised the definition of misbranded foods. The definition of improper labeling was broadened to include any "false and misleading" label. To assist in this area, Congress passed the Fair Packaging and Labelization Act to prevent unfair or deceptive packaging or labeling of certain consumer goods.

"Truth-in-Fabrics" legislation has also been enacted for consumer protection. The Textile Fiber Products Identification Act requires informative labeling and advertising of textile fiber products. Retailers, wholesalers, and manufacturers share the responsibility for seeing that the fiber content of goods they sell is properly labeled and advertised. For example, this federal legislation applies to persons advertising clothing or household fabric products in newspapers having interstate commerce, regardless of whether or not goods are actually marketed across state lines. Therefore, the vast majority of retailers handling textiles have definite responsibilities under this labeling law.

Another area of consumer concern deals with product warranties. The Magnusen-Moss Warranty Act set standards for businesses offering warranties. The basic provision of the Act requires that warranties be written in language that is understandable.

WHAT STEPS CAN BE TAKEN TO COMPLY WITH LAWS PROTECTING CONSUMERS?

Consumers have been given many rights through legislative actions. Consumer groups have publicized these rights. The owner of a small business is working with a public that is increasingly informed of and expecting their rights. The practices of your business should be evaluated in terms of consumer rights, and appropriate policies should be developed to ensure compliance with consumer protection legislation. Examples follow of policies in the consumer credit area and warranty requirements that should provide some insight into the types of policies to be developed:

- The business will prohibit discrimination in granting credit on the basis of race, color, religion, national origin, sex, marital status, age, or because all or part of the person's income comes from public assistance programs.

- The business will provide a statement of finance charges in a uniform matter to all customers.

- The business will notify all customers of the annual percentage rate.
- The business will comply with all legal methods for resolving disputed billings and correcting statements.

If you offer credit to your customers, you probably should request the free pamphlet, "What You Ought to Know About Truth-In-Lending," from any Federal Reserve Bank or from the Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

The Magnusen-Moss Warranty Act and the follow-up Federal Trade Commission (FTC) rules have had a great effect on both manufacturers and retailers. Business people who sell consumer products that are priced above fifteen dollars and who offer written warranties must conform to the provisions of the Act and of the FTC rules. The FTC rules regulating the Magnusen-Moss Warranty Act are outlined in "The New FTC Disclosure of Written Consumer Product Warranty Terms and Conditions," available from the FTC. The basic provisions of warranties, as explained in these rules and in the Act, generally require the warrantor to disclose information "in simple and readily understandable language."

Company policies concerning written warranties should address the following:

- What the warranty covers (parts, labor, workmanship)
- What the warranty excludes (abuse, commercial use)
- What the warrantor will do if the product fails (repair, replace)
- Step-by-step instructions the purchaser must follow to get the warranty honored

WHAT STEPS CAN BE TAKEN TO COMPLY WITH LAWS PROTECTING THE ENVIRONMENT?

Protection of the Environment. In recent years, concern about protecting the environment has resulted in the passing of many anti-pollution laws. Industrial wastes pollute many of our lakes and streams. Some rivers have actually been known to burst into flames from flammable chemical pollutants. The disposal of industrial wastes has created problems for many land fills and other areas, such as Love Canal in Niagara Falls, New York.

In response to these problems, the following federal legislation has been passed:

- The Clean Air Act
- The Solid Waste Disposal Act
- The Water Quality Act
- The Noise Control Act
- The Toxic Substances Control Act

These and other laws affect small business operations. The type and cost of facilities used and their locations are determined in part by environmental regulations. Larger shares of a company's investments are tied up in the costs of complying with these regulations.

The Environmental Protection Agency (EPA) is responsible for enforcing laws protecting the quality of our environment. State and local agencies also control similar statutes within their jurisdictions.

A first step to take is to contact the EPA or a local environmental agency concerning any responsibility—in general terms—that you may have concerning environmental controls. Retail establishments are not affected as much by laws in this area as are manufacturing concerns. Businesses such as foundries and copper smelting plants have a much greater responsibility for clean air than does a retail men's apparel shop.

If you have determined that environmental legislation has a significant effect on your business, then policies should be established for the following:

- What product lines should be developed?
- Under what conditions can the products be produced?
- Where can the business facilities be located?
- What will be the environmental impact?

WHAT LICENSES AND PERMITS ARE NEEDED?

Licensing usually means registering a business. Certain types of businesses are commonly licensed. Paying a fee to obtain the license is also common. Sometimes an inspection of the business is required.

Many enterprises must be licensed by a local, state, or federal agency before opening for business. State governments restrict entry into various professions and types of businesses by requiring licenses. Additional regulations might be required of the business, such as yearly inspection of the business by a state government agency or payment of an annual tax.

Some types of businesses are licensed by the federal government. The Federal Communications Commission (FCC) is an example of an agency with licensing power. The FCC licenses radio and television stations. If you wish to operate a radio or television station, the FCC will assign your station a frequency or channel.

The Civil Aeronautics Board (CAB) is another federal licensing agency. It licenses charter, passenger, and freight airlines. Individuals who qualify to operate private aircraft must also obtain a license from the CAB. However, for intrastate commerce, individual state Public Utilities Commissions (PUCs) issue licenses to airlines operating only within the boundaries.

Federal permits or licenses are issued by other government agencies. For example, any enterprise using government property involved in the preparation of meat products (such as sausages and hot dogs) or involved in the production of drug products must obtain the required federal license.

If you plan to hire employees, you must obtain an employer's Social Security identification number through the Internal Revenue Service (IRS). This number is really a type of "license."

Many states, counties, and municipal governments issue licenses and permits to various types of businesses. These requirements vary from state to state and from one municipality to the next.

States that have sales taxes and "use" taxes usually require businesses to obtain a special permit or license. This license allows the business to give the permit number when purchasing goods for resale instead of paying sales tax. Since the sales tax is a consumer tax, the business is required to collect the tax when selling merchandise to consumers. Business owners must periodically remit the taxes collected.

Some states require that cemetary brokers, dry cleaners, and collection agencies obtain special licenses before they open. In most states, enterprises that sell liquor must be licensed. To obtain these licenses, the person must file an application with the appropriate state, county, or community agency.

Every enterprise must also conform to local zoning laws, comply with building codes, and meet standards set by local health, fire, and police departments.

The following businesses are usually licensed:

- Restaurants and food-handling businesses
- Barber shops and beauty shops
- Cleaning and laundering establishments
- House-to-house peddlers and solicitors
- General stores
- Liquor stores
- Finance and lending institutions
- Dealers and local distributors
- Transportation businesses
- Businesses operating in a foreign state
- Hotels and motels
- Insurance companies

WHAT TYPES OF BUSINESS TAXES ARE THERE?

Tax laws affect any business venture. They should be considered important factors in all business planning, because taxes affect both long-term and short-term business plans.

For many small businesses, "taxes" is a scare word. Some small entrepreneurs are frightened by the paperwork and the records they are required to keep. But the reports must be filled out and the taxes paid. If this is done accurately and promptly, your tax bill can be substantially reduced.

Your business will be subject to federal, state, and local taxes. Among the federal taxes for which you may be liable are Social Security taxes (shared by employer and employees), excise taxes, and federal income taxes.

From your employees' wages you must deduct their share of the old-age, survivor's, hospital, and medical insurance taxes. These are the Social Security taxes. Also, you must withhold an amount from their

wages for payments of their individual federal income taxes and, where required, state and local income taxes.

Most states and some local governments require that businesses pay taxes on corporate income, property, and wages. Be sure to know what your obligations are and follow procedures for fulfilling them.

The entire topic of taxes is technical and always changing. You will probably find that you do not have the time to keep up to date on the latest tax regulations at the local, state, and federal levels.

Hiring the services of a good tax adviser, or a Certified Public Accountant, will probably be very helpful for you. Advice from experts in the tax field can keep you from making costly mistakes and will save you money. It will also decrease the amount of your paperwork.

As the owner/manager of a small business, you play two roles in managing taxes. In one role, you are a debtor. In the other role, you are an agent. In the role of debtor, you are liable for various taxes and pay them as part of your business obligations. In the role of agent, you collect various taxes and pass the funds on to the appropriate governmental agency.

Withholding Federal Payroll Taxes. Payroll taxes are a major expense of the business, not only in actual cash outflows, but in the amount of time required in recordkeeping.

Before hiring any employees, you should go to the local Internal Revenue Service (IRS) office for information about your federal tax obligations. An excellent booklet to obtain from the IRS is *Tax Guides for Small Business*. Also, contact the appropriate state and local government agencies for additional information.

One of the first items you must obtain as an employer is an Employer Identification Number. This number is required on all employment and business tax returns. You can obtain your number by filing an application with the Internal Revenue Service. Be sure to request from the IRS a set of tax information materials entitled, "Mr. Businessman's Kit." This kit includes tax information that will be very useful to you in operating your business.

A copy of the Small Business Administration's "Small Marketer's Aid No. 144, *Getting the Facts for Income Tax Reporting*, will also be useful to you as you review your tax responsibilities.

As an employer, you are responsible for withholding federal income tax from each employee's wages. You are then responsible for sending these withholdings to the government periodically.

Whenever you hire an employee, you must be sure he or she prepares a form W-4, "Employees Withholding Allowance Certificate." On this form, the employee informs you of the number of exemptions to be claimed. This form gives you the opportunity to withhold income tax in accordance with the withholding tables distributed by the Internal

Revenue Service. The manual, *Employer's Tax Guide*, prepared by the IRS, includes tables that tell you how much you must deduct (withhold) from the employee's salary.

Be sure each employee's W-4 is up to date, and the exemptions he or she wants to claim are correct. It is normally good practice at the beginning of each year to ask your employees to prepare a new W-4.

Employers must also withhold Social Security taxes. You must match the employees' contributions by paying an amount equal to that withheld from their salaries.

If you decide to use Social Security for your own retirement, you will need to pay your taxes yourself.

How do entrepreneurs remit the income and Social Security taxes withheld? Remitting the funds involves two steps:

1. Reporting the income and Social Security taxes that you withheld

2. Depositing the withheld funds

Tax return Form 941 is used to report the withholdings. This form is prepared for each calendar quarter and is due one month after the close of the quarter—April 30, July 31, October 31, and January 31.

To deposit the withheld funds, prepare Form 501 (Federal Tax Deposits, Withheld Income and FICA Taxes). This form and a check for the amount due should be sent to the Federal Reserve Bank that services your area or to a commercial bank that is authorized to accept tax deposits.

In some cases, taxes must be remitted before the form is filed. The dates on which the taxes are due depend on the situation. The summary that follows gives the rules for depositing the taxes:

Accumulated Unpaid	Deposit Requirement
1. Less than $500 at the end of the calendar quarter	1. Must be paid by the end of the following month, either as a deposit or with the quarterly tax return..
2. $500 or more, but less than $3,000 at the end of any month	2. Must deposit the accumulated liability by the fifteenth of the following month
$3,000 or more during any month	accumulated liability within three banking days after the close of the eight month period

Figure 1. Rules for depositing taxes

SOURCE: Keeling, B., and Bieg, B. *Payroll Accounting.* Cincinnati: South-Western Publishing Co., 1982, p. 82.

If your business paid $1,500 or more in any calendar quarter to employees, or you had one or more employees work some part of a day in each of twenty or more calendar weeks, you are liable for federal unemployment tax. Employees do not contribute to this tax. The employer pays the full amount of federal unemployment taxes due.

The basic rate is 3.4 percent of the first $6,000 of taxable wages received by each employee, although most employers pay less. However, the federal government gives you partial credit for any unemployment taxes that you pay to your state government.

Recordkeeping Requirements. The Fair Labor Standards Act and the Social Security, Income Tax Withholding, and Unemployment Tax legislation require that specific information be maintained concerning employee and payroll data. None of the laws specify the form of records to be used. Table 1 on the next page outlines the employee, employment, and tax data required by the government for payroll purposes.

The Fair Labor Standards Act (FLSA) provides minimum wage, equal pay, and overtime standards for covered employees. Not all employees are covered by this act. A small business owner should review the coverage to insure that payroll costs are not more than they should be. Table 2 displays some of the more common exemptions under the FLSA.

Federal Income Tax. One type of tax with which most people are familiar is the federal income tax. In paying income taxes, the business owner is again both a debtor and an agent. As a debtor, the amount of federal income tax you will pay depends on the income of your firm. The type of business structure—sole proprietorship, partnership, corporation—in addition to any other income, exemptions, and personal deductions (nonbusiness deductions) will all determine the amount of federal income tax you will pay.

If you are the sole proprietor of your business, you pay your income tax just like any other individual. You will file the same forms, except that you will prepare an additional form, Schedule C, Form 1040, and attach it to Form 1040. If you are involved in farming, you will also need to prepare Schedule F, Form 1040.

Should your business be a partnership or a corporation, there are some differences in the forms you must file as well as in dates for remitting tax payments. Whether you file as an individual, business, or both ways, tax planning during the year can save you considerable sums of money. Consult a tax specialist to get ideas such as the following for saving tax dollars:

- Defer current year's income to a later year.
- Accelerate deductions for items like interest, taxes, and charitable contributions.
- Time your capital gains and losses carefully.

TABLE 1

SUMMARY OF INFORMATION REQUIRED BY MAJOR FEDERAL PAYROLL LAWS

	Item	Fair Labor Standards Act	Social Security	Income Tax Withholding	Unemployment Tax
EMPLOYEE DATA	Name	Yes	Yes	Yes	Yes
	Address	Yes	Yes	Yes	Yes
	Sex	Yes	....	....	....
	Date of birth	Yes	Yes	Yes	Yes
	Social security number	Yes	Yes	Yes	Yes
	Witholding allowances claimed	....	....	Yes	....
	Occupation	Yes	Yes	Yes	Yes
	Period employed	....	Yes	Yes	Yes
	State where services rendered	....	Yes	....	Yes
EMPLOYMENT DATA	Day and time of day when workweek begins	Yes	....	....	....
	Regular hourly rate of pay	Yes	....	....	....
	Basis of wage payments; e.g., $4 per hour; $32 per day	Yes	....	....	....
	Hours worked each week	Yes	....	....	....
	Daily or weekly straight-time pay, exclusive of overtime pay	Yes	....	....	....
	Amount and nature of exempt pay	Yes	....	....	....
	Weekly overtime pay	Yes	....	....	....
	Total additions to or deductions from wages	Yes	....	....	....
	Total remuneration for payroll period	Yes	Yes	....	....
	Total remuneration for calendar year	....	Yes	....	Yes
	Date of payment	Yes	Yes	Yes	Yes
	Payroll period	Yes	Yes	Yes	Yes
TAX DATA	Employees' wages subject to tax for payroll period	....	Yes	Yes	....
	Employee's wages subject to tax for calendar year	....	Yes	....	Yes
	Taxable remuneration—if different from total remuneration, reason for difference	....	Yes	....	Yes
	Tax deductions from employee's wages	....	Yes	Yes	Yes
	Date tax collected if other than date of payment	....	Yes	....	....
	Tax paid by employer but not deducted from employee's wages	....	Yes	Yes	Yes
GEN'L	Specific form of records	No	No	No	No
	No of years records must be kept	2-3	4	4	4

SOURCE: Keeling, B. and Bieg, B. *Payroll Accounting.* Cincinnati: South-Western Publishing Co., 1982, p. 3

TABLE 2

EXEMPTION STATUS OF WORKERS UNDER FLSA

Employee Job Description	Minimum Wage Exemption	Equal Pay Exemption	Full Overtime Exemption
Administrative, professional, and executive employees including teachers and academic administrative personnel.	X		X
Agricultural employees:			X
Agricultural workers who are members of the employer's immediate family.	X	X	X
Air carrier employees if the air carrier is subject to Title II of the Railway Labor Act.			X
Amusement or recreational establishment employees, provided the business has seasonal peaks and workers in organized camps or religious or nonprofit educational conference centers.	X	X	X
Announcers, news editors, and chief engineers of radio or television stations in small communities.			X
Babysitters (casual) and companions to ill or aged persons unable to care for themselves.	X	X	X
Drivers and drivers' helpers who make local deliveries and are paid on a trip-rate or similar basis following a plan approved by the government.			X
Fruit and vegetable employees who are engaged in the local transportation of these items or of workers employed or to be employed in the harvesting of fruits or vegetables.			X
Household domestic service employees who reside in the household.			X
Law enforcement and fire-fighting personnel working for agencies employing less than five such persons.			X
Motion picture theater employees.			X
Motor carrier employees if the motor carrier is subject to regulation by the Secretary of Transportation.			X
Newspaper employees if the newspaper is published on a weekly, semiweekly, or daily basis and if the circulation is less than 4,000 copies, with the major circulation in the county of publication or contiguous counties.	X	X	X
Outside salespersons.	X		X
Railroad, express company, and water carrier employees if the companies are subject to Part I of the Interstate Commerce Act.			X
Retail or service establishment employees that meet the statutory qualifications.	X	X	X
Salespersons for automobile, truck, or farm implement dealers; parts stock clerks or mechanics; salespersons for boat, trailer, or aircraft dealers.			X
Taxicab drivers.			X

SOURCE: Keeling, B., and Bieg, B. *Payroll Accounting.* Cincinnati: South-Western Publishing Co., 1982, p. 29.

- Investigate the use of tax-sheltered investments.
- Review recordkeeping systems to take advantage of research and development credits.

Other Federal Taxes. Federal excise taxes are levied on the sale or use of certain items, on certain types of transactions, and on certain occupations. For example, there is an occupational tax on retail dealers of adulterated butter, on retail beer and liquor dealers, and on wholesale beer and liquor dealers. A retailer's excise tax is levied on diesel fuel and special motor fuels. Check with your local IRS office if you are in doubt about the excise tax liability of your business.

State and Local Taxes. Although state taxes vary from state to state, the three major types of state taxes are unemployment taxes, income taxes, and sales taxes. Many local governments also have income and sales taxes. It is essential to know what taxes your state and local governments require you to pay as a debtor and what taxes they require you to collect as an agent.

Every state has unemployment taxes. The requirements vary significantly among states. In some states, employees and employers contribute to unemployment taxes. The rate of tax charged is usually based on your firm's unemployment experience, coupled with the unemployment experience of your state.

Many states now have a state income tax. In some cases, the employer withholds state income tax from the employee's wages. In most cases, the state tax returns are similar to those used by the federal government.

Many states also have sales taxes. The business collects the sales tax from customers and transmits it to the state agency.

Counties, municipalities, towns, and cities impose various kinds of taxes on businesses. These might include real estate taxes, personal property taxes, and taxes on gross sales. Some cities also have an income tax.

Meeting Tax Obligations. If you hire employees, whether they are full-time or part-time, you will be responsible for taxes, forms, and insurance requirements. Depending upon the community and state you are in, you will be responsible for meeting federal, state, and possibly local requirements.

Be sure to contact the Internal Revenue Service (IRS) office in your area before you hire any employees. Request the form that must be filled out to receive an employer's Identification Number. You will need this number for all federal, state, and local tax forms. The IRS will also send you the necessary forms for deposits and reports. Also obtain a copy of the *Employer's Tax Guide* which will give you all the information you need to know about how and when to deduct and pay federal withholding taxes, Social Security taxes (FICA or FOAB), and federal unemployment taxes.

Contact your state government offices for the necessary information on state taxes and regulations. Be sure you also call your state taxing agency and ask for all the necessary forms and information concerning withholding and unemployment taxes.

You should check with your local authorities to make sure your business is assuming its local obligations. If you are located in a city that has withholding taxes, request information from the city taxing agency.

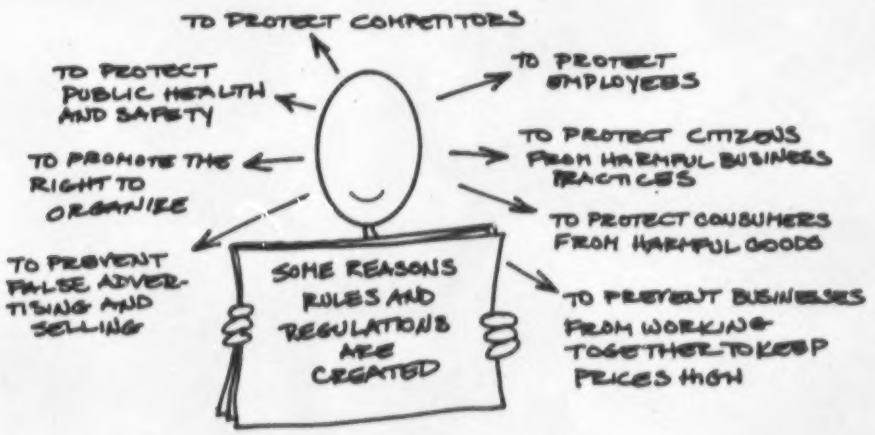
All of these agencies are listed in your phone directory. Look under the heading, "United States Government," for the Internal Revenue Service, under the heading of your state government for state tax agencies, and under your city government for city tax agencies.

Successful small business owners meet their tax obligations by following sound planning principles. The SBA publication, *Steps in Meeting Your Tax Obligations* (Small Marketers' Aid No. 142), lists the planning principles that should be followed to meet your tax obligations. The major ones are these:

1. Know your tax liability. What kind of taxes do you have to pay? How much are they in dollar amounts? When are they due?
2. Set aside the funds necessary to pay various tax bills.
3. Pay taxes on time and avoid penalties for late payment.
4. Get advice from experts, such as an accountant, lawyer, or tax counselor.

WHAT HELP CAN BE FOUND FOR COMPLYING WITH GOVERNMENT REGULATIONS?

As you can see from this unit, there are many laws and regulations that affect small businesses. These laws and regulations have been increasing in number and complexity. To avoid legal problems and higher costs of operation, the owner of a small business must plan to meet all legal obligations.


TO PROTECT COMPETITORS
TO PROTECT PUBLIC HEALTH AND SAFETY
TO PROTECT EMPLOYEES
TO PROMOTE THE RIGHT TO ORGANIZE
TO PROTECT CITIZENS FROM HARMFUL BUSINESS PRACTICES
TO PROTECT CONSUMERS FROM HARMFUL GOODS
TO PREVENT FALSE ADVERTISING AND SELLING
SOME REASONS RULES AND REGULATIONS ARE CREATED
TO PREVENT BUSINESSES FROM WORKING TOGETHER TO KEEP PRICES HIGH

To meet these legal obligations, the owner/manager must first be familiar with the laws and their provisions. Whether the obligations concern protection of competition, employees, consumers, the environment, or the payment of taxes, there is a great deal of assistance that can be obtained locally and at the state and federal levels.

Locally, lawyers, accountants, bankers, municipal officials, and other small business owners can familiarize you with the regulations in your area. State agencies and officials can be contacted at their state or regional offices.

At the federal level of government, several agencies can provide information about the legal obligations of various federal legislation. A partial listing follows of selected agencies and phone numbers:

Federal Agency	Area of Supervision
Federal Trade Commission (FTC) (202) 523-3625	Unfair competition, deceptive consumer practices, monopolies
Environmental Protection Agency (202) 382-2090	Pure air, water, and other environmental concerns
Food and Drug Administration (FDA)	Purity of goods, drugs, and cosmetics; packaging and labeling
Interstate Commerce Commission (ICC) (202) 275-7414	Railroad, truck, bus, and inland waterway transportation
National Labor Relations Board (NLRB) (202) 254-9167	Labor-management relations
Occupational Safety and Health Administration (OSHA) (202) 523-9361	Protection of employees on the job
Securities and Exchange Commission (SEC)	Issuance of securities and trading securities
Small Business Administration (SBA) (202) 653-6600	Aid to small businesses
Social Security Administration	Old-age, survivors, disability, and health insurance

In addition to these federal agencies, state and local agencies can also provide assistance to small business owners. Some of them are as follows:

State Agency	Area of Supervision
Agricultural Price Stabilization	Food production quotas and prices
Alcoholic Beverage Control	Liquor licenses
Corporation Commission	Private corporations registration
Public Utilities Commission	Public utilities firms regulations
Workers' Compensation Board	Damage awards for work-related injuries and deaths

County and City Agencies	Area of Supervision
Airport Board	Acquisition and operation of county airports
Planning Commission	Approval of land use and development
Air Pollution Control Board	Establishment/enforcement of air purity standards
Economic Development Agency	Development or redevelopment of industrial areas

ACTIVITIES

This unit reviewed the major government regulations and taxes affecting small businesses. Requirements and business activities designed to comply with the requirements were introduced in some detail. The purpose of the Level 3 activities is to involve you in analyzing your business operations so you may develop workable policies and procedures to comply with government regulations.

INDIVIDUAL ACTIVITY

From the checklist that follows, complete the following tasks: (1) identify which laws might apply to your business, and (2) obtain the legislation from the appropriate agency.

CHECKLIST

Protection of Competition
Sherman Antitrust Act
Clayton Act
Robinson-Patman Act
Federal Trade Commission Act

Protection of Employees
Occupational Safety and Health Act
Fair Labor Standards Act
Walsh-Healy Act
Davis-Bacon Act
Federal Social Security Act
Pension Reform Act
Civil Rights Act
National Labor Relations Act
Taft-Hartley Act
Labor Management Reporting and Disclosure Act

Protection of Consumers
Equal Credit Opportunity Act
Fair Credit Billing Act
Fair Credit Reporting Act
Consumer Credit Protection Act
Food, Drug, and Cosmetic Act
Fair Packaging and Labeling Act
Textile Fiber Products Identification Act
Consumer Products Safety Act
Magnusen-Moss Warranty Act

Protection of the Environment
Clean Air Act
Solid Waste Disposal Act
Water Quality Act
Noise Control Act
Toxic Substances Control Act

INDIVIDUAL ACTIVITY

Listed on the next page are several federal, state, and local taxes. Obtain information—legislation, booklets, or other publications—from the appropriate agencies and determine your obligations under all taxes for which you are subject.

Federal

Individual income taxes
Corporate income taxes
Excise taxes (manufacturers, retailers)
Employment taxes
Social Security taxes
Death taxes
Stamp taxes
Occupational taxes
Customs

State (specific taxes vary in each state)

Individual income taxes
Corporate income taxes
Gross receipts and sales taxes
Business real estate/personal property tax
Capital stock taxes
Business automobile and truck licenses, inspection taxes
Death taxes
Foreign-state business taxes
Worker's Compensation insurance premiums
Incorporation fees
Employment taxes

Local

Individual income taxes
Sales taxes
City, school district, and county real estate/personal property taxes
Business licenses
Business real estate/personal property taxes

GROUP ACTIVITY

After reviewing the material collected from the first activity in this unit, develop policies for your own business organization. Assign to management personnel the legislation appropriate to their function within the organization. Involve employees in the process, where appropriate. Bring in outside materials and experts to help.

GROUP ACTIVITY

After reviewing the materials collected from the second activity in this unit, invite a Certified Public Accountant to speak to your group and to explain the tax laws, advising you on appropriate company policy and tax practices.

CASE STUDY

Marvin Nichols sat back in his chair and looked at the $25,000 check he had just written to pay his business income tax. He sure liked making the money in his small machine shop, but he hated paying Uncle Sam. He could use the money to help build the prototype of that new machine he had on the drawing boards.

If the machine worked the way it was designed to—and he knew it would—production costs would be cut substantially. But the machine

was expensive, and he needed cash to get started. As he reviewed his expenses, he noticed that income tax was the greatest expense on the books. If he could cut that expense, his cash flow would be increased, maybe to the extent that construction on the prototype could be started. Marvin felt that it was time to visit an accountant. As he gathered the tax returns for the past five years and their accompanying Schedule Cs, he summarized some of the recent business results and future plans. The business had made substantial profits for the past five years, averaging $52,000 annually. This profit was expected to increase because of the purchase of $75,000 worth of new equipment, and the new design on the boards should also have a positive effect on income once it became fully operational.

Marvin has several employees who have been with him for more than ten years, and he would like to keep them on the job. His own retirement, although thirty years down the road, has begun to enter his mind.

Marvin wonders what can be done, from a tax basis, to help him achieve some of his immediate and long-term goals.

CASE STUDY

James Worthman is in the business of selling oil-field pumps, and his business is booming. He cannot meet all the customer demand, resulting in a three-month backlog of orders. Some customers are disappointed with the wait, but Jim knows that if they could get their pumps faster someplace else they would. Besides, his sales staff and customer service department are the best in the industry.

Jim has tried to operate on a first-come first-serve basis, but because of the industry backlog, many first-time customers are getting pumps ahead of regular customers. Now is the time to establish some priorities and develop company procedures. Jim has the following proposals from customers and suppliers:

1. A major supplier of oil-field equipment informed Jim that he can have all the high-quality pumps he needs if he will agree to buy one pump from a discontinued line for every ten of the quality pumps he purchases.

2. A long-time customer of Jim's is expanding business to another state. The customer wants to double his current orders, which will make him the largest of Jim's accounts. The customer is expecting a price break because of the new high volume of business. Jim's costs will not be reduced because of the increased transportation charges and initial service costs. The customer believes that a price concession by Jim now will pay off in the future, because the competitors of the customer will not be able to maintain their market share. Once Jim's customer has penetrated the new market, Jim will be able to recoup any losses incurred—and then some.

3. Jim has been asked to give a price concession on one of the company's standard pumps. This particular line of pumps has been a major seller because of its no-frills, general purpose

nature. It has a low markup already, but the customer says that one of Jim's competitors can beat the regular price. The customer says that if Jim can match the price, he will buy from Jim because of his fine service.

As Jim reviews the proposals, he wonders which ones he should accept. On what basis should he accept or reject each proposal? What types of policies should Jim establish to make these decisions more routine?

ASSESSMENT

Directions: Read the following items to check your knowledge of the topics presented in the PACE unit. When you feel ready, ask your instructor to check your skills.

1. List and explain three reasons why government regulations are important to small business.

2. What specific responsibilities do the following federal agencies meet?

   - Federal Trade Commission
   - Equal Employment Opportunity Commisssion
   - Occupational Safety and Health Administration
   - Environmental Protection Agency

3. What steps can be taken by the owner of a small business to comply with government regulations in the four areas presented in the unit?

4. List at least three taxes at the federal, state, and local levels that will affect small business operations.

5. What specific steps can the owner of a small business take to comply with the regulations concerning business taxes?

NOTES

[1]Weidenbaum, Murray L. *The Future of Business Regulation.* New York: AMACOM, 1979, p. 53.

[2]Ibid, p. 34

[3]Keeling, B., and Bieg, B. *Payroll Accounting.* Cincinnati, OH: South-Western Publishing Co., 1982, p. 82.

[4]Ernst and Whinney. *Year End Tax Ideas.* New York: Ernst and Whinney, 1981.

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For further information, consult the lists of additional sources in the *Resource Guide.*

Level 3

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

OSU.

The Ohio State University